

Senate Budget and Fiscal Review
SUBCOMMITTEE NO. 1

EDUCATION
Jack Scott, Chair
John Vasconcellos
Bob Margett

Monday, March 17, 2003
1:30 p.m. (or upon adjournment of the Senate Floor Session)
Room 113

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I. INTERSEGMENTAL ISSUES

A. ENROLLMENT GROWTH

GOVERNOR'S BUDGET PROPOSAL. The Governor's 2003-04 budget proposes to augment the budgets of the University of California and the California State University by a total of \$268.1 million (\$117.2 million and \$150.9 million respectively) to support the projected enrollment growth for the 2003-04 academic year.

University of California: Specifically, the Governor proposes to provide \$117.2 million to UC to support 13,000 full time equivalent students (FTES). Of this amount, 5,000 students (2.4 percent) are already enrolled on UC's campuses, without any financial support from the state. The remaining 8,000 FTE (4.5 percent) are expected to enroll next year. This equates to total enrollment growth funding of 6.9 percent.

California State University: The Administration proposes to provide \$150.9 million to support 22,880 new FTE students (which equates to 7.1 percent growth) at the CSU. \$45 million of these funds are attributable to 6,824 students (2.1 percent) who already enrolled on CSU campuses; the remaining \$105.9 million will support projected growth of 5.0 percent (16,056 students).

In dramatic contrast, enrollments are expected to decline by 5.7 percent at the California Community Colleges (*Note: This issue will be heard at a separate hearing on April 7, 2003*).

LEGISLATIVE ANALYST RECOMMENDATION. The LAO believes that the level of enrollment growth funding proposed by the Governor's Budget is neither necessary nor prudent. According to the LAO, it "cannot find a basis for assuming, in a time of fee increases, such a large increase in enrollment at the higher-cost [UC/CSU] institutions while assuming such a large decrease in enrollment at the lower-cost institutions [community colleges]."

As an alternative, the Analyst recommends funding budget-year enrollment growth at four percent for both UC and CSU; this recommendation would result in savings (from the Governor's Budget) of \$114.9 million. In support of its recommendation, the LAO notes that campuses are already serving the "over-enrollment" in the current year and providing the universities with funding for these same students in the budget year does nothing to increase student access.

STAFF COMMENTS. *Staff notes* that the timing of the LAO's recommendation may be problematic given that the UC and CSU are currently sending out acceptance letters to students and any changes to enrollment growth policies for 2003-04 would be difficult

for the institutions to implement. Further, it is unclear if the UC and CSU could rescind or amend student acceptance letters that have already been sent.

Further, *staff notes* that the LAO's recommendation to not fully-fund projected enrollment runs counter to past Legislative and Administration practice which has, in recent history, made a point of providing funding to UC and CSU based on the institutions estimates of enrollment growth.

Also, it is important to note that, determining how much to budget for enrollment growth at UC and CSU is a way to, rather indirectly, set higher education enrollment policies statewide. Failing to provide adequate support to the UC and CSU would likely result in campuses not enrolling students in excess of their funded FTES; the outcome of which may run counter to the Master Plan, which essentially guarantees a place for all eligible students.

Further, if the Legislature continuously fails to provide enough funding for universities to offer the courses students need to complete their degrees, in the end, students will make a choice to leave the campus and enroll somewhere that can provide them with the courses and sections they need at a cost (and a financial aid package) that seems reasonable. In some cases this may mean a shift of students to the community colleges or to private institutions. In other cases, students may drop out choosing to either postpone or not pursue a degree.

B. INSTITUTIONAL CAMPUS-BASED FINANCIAL AID

BACKGROUND. Financial assistance for students comes in many forms and is offered by many entities. The major forms of financial assistance for postsecondary students includes grants (scholarships and fellowships), loans, work study, investment accounts, and tax credits. The major providers of financial assistance are the federal government, state government, universities, and private benefactors.

The state of California provides student financial aid through the Cal Grant Program, university-based institutional aid, and Governor's Merit Scholarships. Each of the public university systems administers its own financial assistance programs (known as "campus-based financial aid") using dollars derived from student fees and/or the state General Fund.

GOVERNOR'S BUDGET PROPOSAL. The Administration's budget proposal retains the current policy of the UC Board of Regents and the CSU Board of Trustees which returns one-third of the new student fee revenue derived from fee increases to campus-based financial aid. Under current practice, the UC and CSU retain the authority to distribute these funds to students on their campuses as they see fit. Due to the proposed increases in student fees, campus-based financial aid programs are proposed to rise for UC and

CSU by \$95 million and \$71 million respectively, for a total of \$246.6 million at the UC and \$193.5 million at the CSU.

LEGISLATIVE ANALYST RECOMMENDATION. The Legislative Analyst has a variety of recommendations aimed at student financial aid. The recommendations which focus on Cal Grants and other programs administered by the Student Aid Commission were heard by this committee on March 3, 2003. The remaining recommendations focus on the Governor's Merit Scholarship Program (*which is slated to be heard by this committee on May 5, 2003*) and campus-based financial aid.

The LAO believes that, under current practice, there is a disconnect between the original intent of setting aside one-third of new fee revenue for financial aid, and the current campus-based aid programs. Specifically, the LAO sites the original intent behind the "return-to-aid" policy as insuring that financially-needy students are covered when fees are increased. However, the LAO notes that under the Cal Grant Program, financially-needy students who are also academically meritorious, will have the amount of the fee increases covered by an accompanying increase in their Cal Grant award. With this in mind, the LAO notes the following questions:

- How are the UC and CSU using their campus-based financial aid monies?
- Should the state, rather than the educational systems, determine how these dollars (which are derived from student fee increases) are re-allocated amongst students?

The LAO proposes a much more centralized approach to financial aid that places the state in the role of providing oversight over how campus-based (and student fee-derived) financial aid dollars are expended. Specifically, the LAO recommends that the legislature: (1) appropriate all campus-based financial aid funding through the Budget Act; (2) reduce the amount of funding provided in the Governor's Budget for campus-based financial aid; (3) adopt Budget Bill Language specifying how campus-based financial aid dollars should be expended; and (4) begin working with the university segments and interested parties to develop legislation to express the objectives of financial aid policy and more clearly identify the intended beneficiaries of the funds.

STAFF COMMENTS. Contrary to the recommendations of the LAO, staff notes that the administration of financial aid programs appears to be moving from a state-administered, overly bureaucratic, and centralized system to one that is campus-based, student-centered and more flexible in nature. The California Postsecondary Education Commission, in its review of the administration of the Cal Grant Program (a report which was requested by the Legislature), noted that the Cal Grant Program -- which is centrally administered by the California Student Aid Commission -- would better serve students if the

administration of the program moved towards a more decentralized, campus-based model.

Further, staff notes that there continues to be a need to allow campus financial-aid officers to work with, and meet the unique circumstances of, students on a case-by-case basis. Many times students have unanticipated financial needs or needs that aren't reflected in their student aid application from the prior Spring. Altering the process by which campus-based financial aid dollars are allocated could make it difficult for students to work with their financial aid administrators, mid-year, to make changes and receive additional needed aid.

C. STUDENT FEES

GOVERNOR'S BUDGET PROPOSAL. The Governor's 2003-04 budget proposes to increase student fees at UC and CSU by 35 percent over the amount student's paid in the Fall of 2002; ten percent of this increase was already imposed on students beginning this semester/term and the remaining 25 percent would be assessed beginning in the Fall of 2003. The funds derived from this fee increase would be used to: (1) "backfill" a combination of allocated and unallocated reductions proposed by the Governor for the UC and CSU; and (2) support financially-needy students on a campus-by-campus basis.

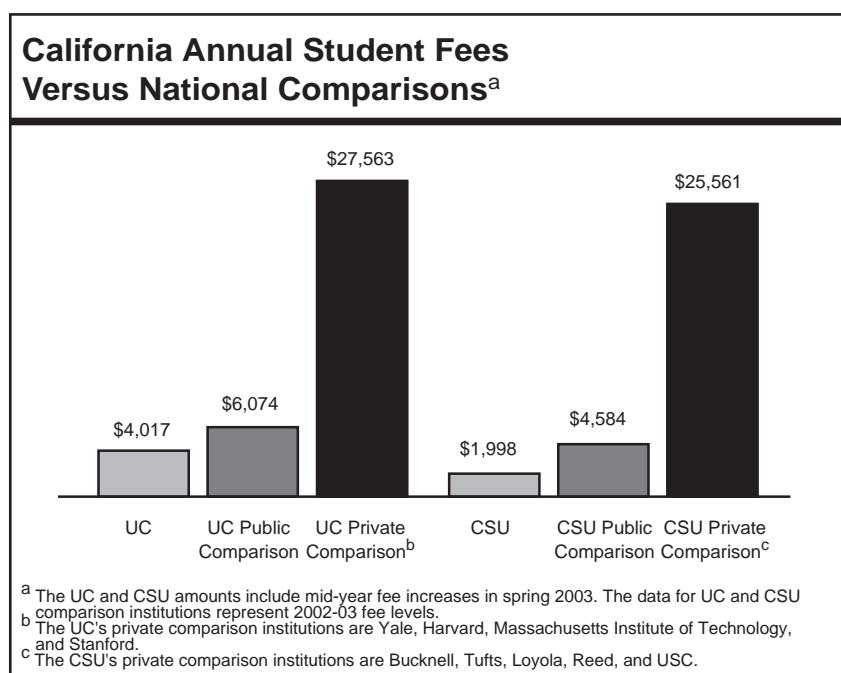
Specifically, student fees are proposed to increase as follows:

Proposed UC and CSU Systemwide Fees ^a							
		Change		2003-04	Change From 2001-02		
2001-02	2002-03 ^b	Amount	Percent	Proposed	Amount	Percent	
UC							
Undergraduates	\$3,429	\$3,834	\$405	12%	\$4,629	\$1,200	35%
Graduates	3,609	4,014	405	11	4,869	1,260	35
CSU							
Undergraduates	\$1,428	\$1,572	\$144	10%	\$1,968	\$540	38%
Graduates	1,506	1,734	228	15	2,082	576	38
^a For UC amounts include educational fee and registration fee. For CSU amounts include systemwide fee. Students also pay campus-based fees.							
^b Fee that would result if spring 2003 increases were applied to all quarters/semesters of the academic year.							

DETERMINING THE APPROPRIATE FEE LEVEL. Without an explicit student fee policy (statutory or otherwise) to guide the Governor or the Legislature, the Administration's budget proposal continues the "boom and bust" cycle of student fees, which holds stable or decreases student fees in good economic times and dramatically increases fees when

the economy is struggling. The UC Board of Regents and, in the absence of a statutory policy, the CSU Board of Trustees, have the authority to set student fee levels for students attending their institutions; the fee level for students attending community colleges is set at a per unit rate in statute.

In comparison to colleges nationwide, *staff notes* that the fee levels at UC and CSU (as proposed to be increased) still fall below the national average for like-institutions.



CALIFORNIA POSTSECONDARY EDUCATION COMMISSION RECOMMENDATIONS. As part of last year's budget deliberations, the Legislature adopted Supplemental Report Language requesting that the California Postsecondary Education Commission (CPEC) develop recommendations (with the input of various constituency groups) regarding a long-term student fee policy. As part of its report on this topic, CPEC outlined a variety of policy principles and an implementation framework for consideration by the Legislature. More specifically, CPEC's principles for the development of a student fee policy included the following: (1) fee increases should be gradual, moderate and predictable so that students and families can prepare financially for college; (2) the total cost of receiving a college education is one that should be shared by students, families and the State; (3) student fee costs, and associated changes, should take into account the total cost of college attendance as well as a family's ability to pay; (4) financial aid resources should be used to protect financially-needy students from increased fee costs; (5) it is appropriate for students enrolled in graduate and professional-level programs to pay a higher fee.

Further, CPEC proposes a framework for implementing fee increases that: (1) places the bulk of the responsibility for annually adjusting student fees on the UC and CSU; (2) requires the UC and CSU to develop a student fee methodology and report annually on the impact of the methodology; (3) requires the UC and CSU to act on proposed changes to student fees no later than November 30th and notify students of the proposed changes at that time; (4) recommends that the Legislature and the Governor avoid “backfilling” student fee increases and instead let fees increase or decrease in a manner determined by the segments.

LEGISLATIVE ANALYST RECOMMENDATION. Drawing upon its previously discussed recommendation to decrease the amount of fee revenue that is diverted for campus-based financial aid, the LAO recommends that the Legislature increase student fees for UC and CSU resident undergraduates by 15 percent, rather than the 25 percent proposed in the budget year. Further, the LAO proposes an increase of 20 percent, for graduate student fees at the UC rather than the 25 percent proposed in the Governor’s Budget. In order to provide the same amount of revenue to the campuses (in order to backfill the Governor’s proposed reductions), the LAO recommends that the segments direct a much smaller amount of new fee revenue to campus-based financial aid rather than the current policy of one-third.

STAFF COMMENTS. *Staff notes* that the recommendations put forward by CPEC represent a sound, albeit dramatic, change in student fee policy for the state, and as such should be placed in legislation and evaluated through the legislative process.

Further, *Staff notes* that if the Legislature agrees with the current practice of returning one-third of the new student fee revenue to student financial aid, then the above LAO recommendation related to student fees is moot.

II. University of California

OVERVIEW OF GOVERNOR’S BUDGET. The Governor’s 2003-04 Budget provides for a General Fund appropriation of approximately \$3 billion, which is a net reduction of \$134 million (-4.2 percent) from estimated current-year expenditures. Major reductions include a base budget reduction of \$299 million; of this amount, \$195 million are implemented as unallocated reductions and \$89 million reflects the continuation of current year reductions into the budget year. In addition, the budget proposes to dismantle all but one of the California Subject Matter Projects for a savings of \$15 million.

The revenue derived from the proposed student fee increases (less one-third for financial aid) will offset approximately \$130 million of the Governor’s proposed reductions. Further offsetting the proposed reductions are augmentations for the following: \$117 million for

enrollment growth (as discussed earlier in this hearing); \$24.4 million for lease revenue debt service; \$16.1 million for increased costs of annuitant health and dental benefits; and \$11.3 million for UC Merced.

While the reductions proposed by the Governor's Budget are severe, the Legislative Analyst raises issue with only one proposed cut, the 50 percent reduction to student outreach. (*Staff notes that the issue of student outreach will be before the committee on Monday April 7, 2003.*)

A. UC MERCED. The Governor's Budget proposes to augment expenditures for UC Merced by \$11.3 million, bringing total funding in 2003-04 to \$37.97 million. Of this amount, \$21.3 million is related to start-up operations of the campus and \$16.6 million is related to the planning and construction of new buildings, as well as the refurbishment of temporary facilities at the former Castle Air Force Base. Including the amount proposed in the Governor's 2003-04 Budget, the state has expended over \$90 million of General Fund and \$190.1 million bond funds to develop the campus (\$280.2 million total).

LEGISLATIVE ANALYST RECOMMENDATION. In its Analysis of the 2003-04 Budget Bill, the LAO withheld recommendation on the \$11.3 million support augmentation for the Merced campus because it had yet to review an expenditure plan for the funds. Since that time, the LAO has received additional information and is prepared to present its analysis to the committee at today's hearing.

Staff notes that the Merced campus was originally intended to open in the Fall of 2005, with 1,000 FTE (or 1,036 "headcount" students), and the UC was on-track to meet this opening date. As part of the 2000-01 Governor's Budget, the Administration requested that the opening date be expedited to Fall of 2004. While rushed, the UC believes it can indeed open the campus in 2004. Further, *staff notes* that it is unclear if the additional funds proposed by the Governor's Budget are on-going or one-time in nature. *If the funds are one-time, staff recommends that the committee adopt Budget Bill Language specifying that the funds are indeed one-time in nature.*

B. SUBJECT MATTER PROJECTS. The Governor's Budget proposes to dismantle the long-standing California Subject Matter Projects, for a General Fund savings of \$15 million, while retaining \$10 million in funding (\$5 million General Fund; \$5 million federal funds) for one of the projects – the Science Subject Matter Project. The Administration contends that it must retain \$5 million General Fund in the Science project to avoid violating federal supplanting laws, due to the fact that in the current year, the state appropriated \$5 million of federal Title II funds to the Science Project.

BACKGROUND. The California Subject Matter Projects serves as a longstanding model of teacher professional development. The program is administered by the UC and uses a teachers-teaching-teachers model to develop teacher leaders and deliver subject-specific training statewide. Currently, UC administers six subject matter projects in the areas of: (1) history/social science; (2) international studies; (3) mathematics; (4) reading/literature; (5) science and (6) writing. All subject matter projects are aligned to the state's academic content standards and are linked with low-performing schools.

LEGISLATIVE ANALYST RECOMMENDATION. Contrary to the opinion of the Administration, the LAO believes that the \$10 million from combined federal and state funds that is budgeted for the Science Subject Matter Project could be more broadly disseminated to support a consolidated core group of Subject Matter Projects. Specifically, the LAO recommends consolidating the existing six Subject Matter Projects into four, in the following core subject areas: (1) English language Arts; (2) Social Science; (3) Mathematics and (4) Science. The proposed consolidation and sharing of resources would allow UC to maintain the infrastructure of the Subject Matter Projects and avoid dismantling a highly regarded and successful teacher training program.

III. California State University

OVERVIEW OF GOVERNOR'S BUDGET. The Governor's 2003-04 Budget provides for a General Fund appropriation of approximately \$2.6 billion, which is a net reduction of \$97.4 million (-3.6 percent) from estimated current-year expenditures. Major reductions include a combined allocated and unallocated base budget reduction of \$266.4 million.

These reductions are partially offset by revenues derived from the proposed student fee increases (less one-third for financial aid) which are expected to net \$141.5 million. The reductions are further offset by proposed augmentations (totaling \$153.1 million) for: (1) student enrollment growth (as discussed earlier in this hearing); (2) lease revenue bond debt service; (3) increased costs of annuitant health and dental benefits; and (4) increased costs associated with PERS. ■

Like the UC, the Legislative Analyst raises issue with only one proposed budget reduction, the 50 percent cut to CSU student outreach programs. *Staff notes that the issue of student outreach will be before the committee on Monday April 7, 2003.*

A. EXECUTIVE, LEGISLATIVE AND JUDICIAL FELLOWS PROGRAMS. The Governor's Budget proposes to reduce funding for the Center for California Studies and its associated programs (including the LegiSchool Project, the Sacramento Semester Internship program and the Legislative, Executive and Judicial Fellows programs). This reduction

would result in a fifty percent decline in the number of individuals accepted into and supported by the Fellows Programs; this would reduce the number of fellows from 64 to 32.

The Legislative Analyst did not raise any issues or concerns with this reduction; however, *staff notes* that a fifty percent reduction to this item, in light of the level of decreases proposed throughout higher education, seems excessive.

B. REMEDIAL EDUCATION.

In recent years, the Legislature and higher education institutions have grown increasingly concerned with improving high school students' academic preparation for postsecondary education. In part, this interest stems from the relatively high proportion of college freshman that arrive unprepared for college-level coursework. Although community college students do not have to demonstrate that they are prepared for college-level work, both the UC and the CSU require students to demonstrate "college preparedness" in a variety of ways, including scoring above a minimum level on specified exams, passing university-specific placement tests or completing specified precollegiate-level coursework. Once students have been assessed and deemed unprepared, the higher education segments employ a variety of strategies to help them overcome their skill deficiencies.

According to the LAO, the state currently funds precollegiate services at the three higher education segments in different ways. At the community colleges, the state provides \$3,900 (2003-04 rate) per full-time equivalent (FTE) student for all credit courses regardless of whether they are remedial or college-level. Similarly, the state provides the CSU with \$6,594 (2003-04 rate) per FTE student for all credit courses regardless of whether they are precollegiate or college level. In contrast the state does not fund precollegiate courses at the UC, unless the campus chooses to include remedial-level instruction at the beginning of an otherwise for-credit course.

While the Governor's Budget does not contain any initiatives or reductions targeted at the areas of remedial instruction, the LAO has expressed its concern with the existing structure of CSU's remedial education programs. Specifically, the LAO notes that almost one-half of recently-admitted CSU students arrive unprepared for college writing and mathematics; this number rose sharply from 1989 to 2001, but now appears to have leveled off and/or fallen in recent years. Further, the LAO believes that the disparate level of funding for remedial/precollegiate level courses provides an incentive for the CSU to enroll underprepared students.

LEGISLATIVE ANALYST RECOMMENDATION. The LAO makes two recommendations related to remedial instruction at the CSU:

(1) In order to ensure that the precollegiate (remedial) programs achieve the goal of better preparing students for college-level coursework, the Legislative Analyst recommends that the CSU assess and routinely report on the effectiveness of their precollegiate services._

(2) The LAO recommends that the Legislature fund CSU's precollegiate writing and mathematics courses at the same rate it funds credit courses at the community colleges. The LAO estimates that this action would result in General Fund savings of \$10 million.

STAFF COMMENTS. *Staff notes* that this particular issue was heard by this subcommittee in 2001-02; at that time, the LAO's recommendations were not approved by the committee. Specifically, staff continues to note the following concerns:

- If adopted, the LAO recommendation would provide a large monetary disincentive (a loss of \$2,694 per student) for the CSU to either not enroll students who need remediation, even though they may meet all of the admission criteria, or to not provide these students with remedial courses.
- If the CSU campus doesn't provide students with the remedial coursework necessary for them to succeed at the university, then who does? It does not seem realistic to re-route half of the entering CSU freshman to community colleges to take the necessary courses, especially given the abysmal level of financial support (including funding for enrollment growth) that has been provided to the community colleges in recent years.
- Remediation is a statewide issue that effects all of postsecondary education, and as such, all segments of higher education should bear some responsibility for providing entering college students with the skills they need to succeed.

Proposed Consent

Staff recommends that the following items be Approved as Budgeted.

- 6440-001-0007. Support, University of California Breast Cancer Research \$14,759,000
- 6440-001-0046. Support, University of California Institute for Transportation Studies \$980,000
- 6440-001-0234. Support, University of California Tobacco Research \$19,434,000
- 6440-001-0308. Support, University of California Earthquake Engineering Research \$1,500,000
- 6440-001-0321. Support, University of California Oiled Wildlife Care Network \$1,300,000
- 6440-001-0814. Support, University of California California State Lottery Education Fund
\$22,834,000
- 6440-001-0890. Support, University of California Federal GEAR UP Outreach Program \$5,000,000
- 6440-001-0945. Support, University of California California Breast Cancer Research \$480,000
- 6440-002-0001. Support University of California Deferral of Expenditures (\$55,000,000)
- 6440-003-0001. Support, University of California Lease Purchase Bond Debt Service \$115,283,000
- 6440-005-0001. Support, University of California Institutes for Science and Innovation \$4,750,000
- 6440-490. Reappropriation, University of California
- 6440-495. Reversion, University of California
- 6610-001-0890. Support, California State University Federal Trust Funds \$35,860,000
- 6610-003-0001. Support, California State University Lease-Purchase Bond Debt Service \$61,553,000
- 6610-490. Reappropriation, California State University